

HIGHWAY REHABILITATION AND IMPROVEMENT PROGRAM C STAGE 3

(PE-0197)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Peru

EXECUTING AGENCY: Ministerio de Transporte, Comunicaciones, Vivienda y Construcción (MTC) [Ministry of Transport, Communications, Housing and Construction]

AMOUNT AND SOURCE:

IDB:	US\$300 million (OC)
Local contribution:	US\$200 million
Total:	US\$500 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	20 years
Term for initiation of works:	36 months
Term for contracting studies:	42 months
Disbursement period:	54 months
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%
Currency:	Single Currency Facility in United States dollars

OBJECTIVES: The objectives are: (i) to develop an extensive region of the Peruvian highlands by improving its road infrastructure and linking it to the more dynamic economy of the coast; (ii) to improve the programming of road investments; (iii) to encourage private involvement through the promotion of highway concessions; and (iv) to boost the MTC's capacity to administer the highway sector.

DESCRIPTION: The program will finance: (i) road investments in the highland departments of Junín, Cusco, Huanavelica and Ayacucho, specifically rehabilitation of the sections Cusco-Combapata and Huanayo-Imperial-Izcuchaca, improvement and rehabilitation of the Ayacucho-Imperial road, and construction of bypasses at La Oroya and Urcos (US\$339.5 million); (ii) preinvestment studies and works supervision (US\$51.5 million); (iii) government investment in a highway concession project (US\$30 million); and (iv) support for the MTC's sector planning and policy-making capacity and revision of the organization and operations of its different highway agencies (US\$6.5 million).

ROLE OF THE PROJECT IN THE BANK'S COUNTRY AND SECTOR STRATEGY: The project is part of the Bank's strategy to rehabilitate and expand productive infrastructure, finance private investment in physical infrastructure and support the managerial capacity of the central government.

It also conforms to the strategy for the highway sector, which is directed to: (i) improving and expanding road infrastructure, particularly the primary and tertiary networks; (ii) addressing the emergency caused by El Niño; (iii) promoting private-sector involvement and the concession system; and (iv) supporting the modernization and institutional strengthening of the MTC and its agencies.

**ENVIRONMENTAL
AND SOCIAL
REVIEW:**

The program contains measures to ensure its environmental and social validity. All the projects will have environmental impact studies and management plans and, if necessary, resettlement plans.

The main impact will be felt during construction, particularly as a result of opening up borrow and dump sites and establishing work camps and other contractor facilities. The environmental analysis includes measures for environmental monitoring of the works. The environmental protection costs have been included in the work budgets.

BENEFITS:

The proposed program will support the economic development and integration of an extensive region in the Peruvian highlands, which will favor the return of area emigrants by creating new productive opportunities. It will reduce vehicle operating costs and travel times by at least 25%, which will allow for a larger and more varied supply of passenger and freight services. It will also improve investment programming by consolidating effective capacity to prepare and execute projects and will support the private sector by allowing for its participation in highway management under a system of concessions.

RISKS:

The risks that have been identified are: (i) resistance to institutional change in the highway sector; and (ii) lack of private-sector interest in participating in the highway concession program.

With respect to the first risk, the Minister of Transport is personally committed to institutional modernization in the highway sector and has appointed a high-level ad hoc committee to lead the process. The minister has also ordered that an institutional workshop be held, to propose short- and medium-term actions, which the Bank will monitor; work has already begun on organizing this workshop. Specific institutional support and consulting services will also be contracted. This risk will not affect execution of the works, but rather the MTC's long-range capacity to improve its highway management.

With respect to the second risk, the MTC and the Private Investment Promotion Commission, with support from technical-cooperation operation ATN/MT-5532-PE, are taking the steps necessary to carry successfully involve the private sector in highway management.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

- a. Conditions precedent to the first disbursement:
(i) plan for institutional reform of the highway sector (paragraph 3.18); (ii) contracting of services to implement and monitor the compensa-

tion and resettlement plan for the Cusco-Combapata highway; and (iii) model contracts for works and supervision (paragraph 3.45(a)).

- b. Conditions precedent to the first disbursement for the highway concession component: (i) under the public investment contribution subcomponent: (1) bid documents and pro forma contract; (2) proposed bid process; (3) final engineering designs; (4) environmental and social impact assessment; and (5) concession of Road System 5; and (ii) under the technical studies subcomponent: terms of reference (paragraph 2.18).
- c. Conditions after the loan contract becomes effective: (i) **three months:** (1) institutional plan of action for the Directorate General of Land Transport (paragraph 3.17); (ii) **six months:** design standards and technical, environmental and social specifications and road safety requirements (paragraph 3.45(b)); (iii) **twelve months:** (1) master plan for establishing or recuperating rights-of-way (paragraph 3.45(c)); and (2) establishment of the MTC's Environment Unit and environmental training (paragraph 3.45(d)); (iv) **eighteen months:** (1) regulations for the transportation of hazardous materials (paragraph 3.45(e)); and (2) pilot plan for the recuperation of rights-of-way (paragraph 3.45(d)).
- d. Other conditions: (i) semiannual program monitoring meetings (paragraph 3.49) and presentation of progress reports (paragraph 3.51); (ii) compatibility of the schedule for execution and cost recognition with the plan to compensate the population living along the Cusco-Combapata highway (paragraph 3.47); (iii) initiation of the works after compensation is paid at market prices (paragraph 3.48); (iv) use of the funds for the highway concession component (paragraph 3.22); and (v) maintenance of program works (paragraph 3.20).

**POVERTY FOCUS
AND SOCIAL
CLASSIFICATION:**

Not applicable.

**EXCEPTIONS TO
BANK POLICY:**

Consulting services costing less than US\$50,000 may be contracted directly after obtaining the Bank's nonobjection to the individual consultant or firm and the pertinent terms of reference. For consulting contracts between US\$50,000 and US\$200,000, a short list will be drawn up by direct invitation and the companies identified will be invited to submit proposals (paragraph 3.60).

The program will finance measures to strengthen the MTC's planning and policy-making capacity by contracting a technical team composed of experienced consultants (paragraphs 2.21 and 3.17).

PROCUREMENT:

Works costing more than US\$3 million will be contracted through international competitive bidding.

Consulting services costing more than US\$200,000 will be selected through an international call for proposals. Goods worth more than US\$250,000 will be procured through international competitive bidding.